

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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February 26, 2009

Mr. Steve Dial, Deputy Executive Director
San Joaquin Council of Governments
555 E. Weber Avenue
Stockton, CA 95202

Re: San Joaquin Council of Governments
Audit of Indirect Cost Allocation Plan for Fiscal Year 2008/09
File No: P1190-0714

Dear Mr. Dial:

We have audited the San Joaquin Council of Governments' (SJCOG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2009 to determine whether the ICAP is presented in accordance with 2 Code of Federal Regulations (CFR), Part 225 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The SJCOG management is responsible for the fair presentation of the ICAP. The SJCOG proposed an indirect cost rate of 143.02% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the SJCOG. Therefore, we did not audit and are not expressing an opinion on the SJCOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the SJCOG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in 2 CFR, Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of the SJCOG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of the Overall Work Program for FY 08/09, a review of SJCOG's single audit report for the fiscal year ended June 30, 2007, inquiries of SJCOG personnel, a comparison of the FY 2009 ICAP to prior year ICAPs, and reliance placed on the Single Audit report for fiscal year ended June 30, 2007 and prior audit field work performed by Department staff in April 2004. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The SJCOG's did not respond to the draft audit finding provided to them on January 12, 2009. Our finding and recommendation are detailed below.

AUDIT RESULTS

Based on audit work performed, the SJCOG's ICAP for the fiscal year ended June 30, 2009 is presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 143.02% of total direct salaries and wages, plus fringe benefits. The approval for fiscal year ended June 30, 2009 is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Finding

The SJCOG's original ICAP submittal to the Department included, in the FY 2007 indirect cost pool, unallowed capital lease principal costs associated with capitalized equipment leases while also including, in the same pool, depreciation costs associated with the same assets. 2 CFR, Part 225, Appendix B, item 15 a and b, states, in part, that general purpose equipment, which is an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the government unit for financial statement purposes, or \$5,000, such as office equipment and furnishings, information technology equipment and systems, and motor vehicles, are unallowable as indirect costs. However, item 11, states that depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Also, item 37d, states that rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance. Interest costs related to a capital lease are allowable. Including unallowed costs in the indirect cost pool results in an overstated indirect cost rate. The unallowed costs were removed from the FY 2007 indirect cost pool as these materially affected the FY 2009 proposed rate.

Recommendation

We recommend that the SJCOG ensure that, in the future, costs that do not meet the allowability criteria established by the 2 CFR, Part 225 be excluded from the indirect cost pool.

This report is intended solely for the information of the SJCOG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plans for your files. Copies were sent to the Department's District 10, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Elena Guerrero at (916) 323-7954 or Teresa Greisen, Audit Manager, at (916) 323-7910.



MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
- Tom Marez, Section Chief, Local Assistance Accounting Branch, Division of Accounting
- Andrew Knapp, Transportation Planner, Transportation Planning
- Dan Mundy, Branch Chief, Mass Transportation
- Pat Robledo, Senior Transportation Engineer, District 10
- Kathy Selsor, Associate Transportation Planner, District 10
- P1190-0714

SAN JOAQUIN COUNCIL OF GOVERNMENTS
Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the *San Joaquin Council of Governments* and approved by Caltrans.

SECTION I: Rates

Rate Type	Effective Period	Rate*	Applicable To
Fixed with carry forward	7/1/2008 to 6/30/2009	143.02%	All Programs

*Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements—any differences between the application of the fixed rate and actual costs will result in an over or

under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation

FY 2009 Budgeted Indirect Costs	\$	2,703,903
<u>Carry Forward from FY 2007</u>		<u>720,117</u>
Estimated FY 2009 Indirect Costs	\$	3,424,020
FY 2009 Budgeted Direct Salaries and Wages plus Direct Fringe Benefits	\$	2,394,076
FY 2009 Indirect Cost Rate		143.02%

CERTIFICATION OF INDIRECT COSTS

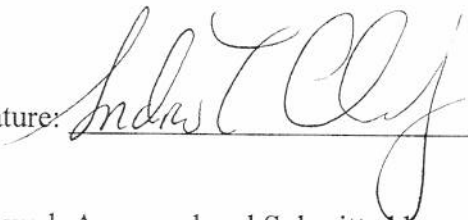
This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

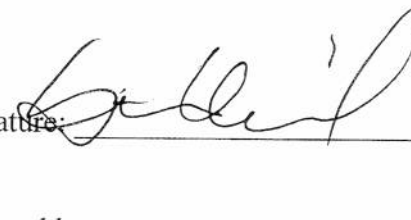
(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: San Joaquin Council of Governments

Signature: 

Signature: 

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Andrew T. Chesley

Name of Official: Steve Dial

Title: Executive Director

Title: Deputy Executive Director/CFO

Date of Execution: August 11, 2008

Phone: (209) 468-3913

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature: 

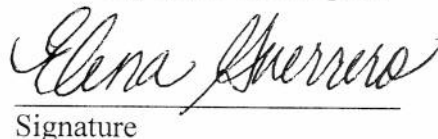
Reviewed and Approved by:

(Name of Audit Manager) Mary Ann Campbell Smith

Title: Chief, External Audits

Date: 2/26/09

Phone Number: (916) 323-7105

Signature: 

Signature

Reviewed and Approved by:

(Name of auditor) Elena Guerrero

Title: Auditor

Date: 2/26/09

Phone Number: (916) 323-7954

SCHEDULE A

San Joaquin Council of Governments FY 08/09 INDIRECT COST CARRYFORWARD CALCULATION FOR FY 06/07

	Actual FY 06/07	Reference	Actual FY 07/08	Estimated FY 08/09	Reference
Approved ICAP Rate					
Beginning Carryforward (FY 04/05)	164.55% FY 06/07 approved ICAP rate				
Actual Indirect Costs	1,015,533 FY 06/07 approved ICAP			720,117 FY 06/07 carryforward	
Total Indirect Costs	2,253,530 *			2,703,903 ***	
	<u>\$3,269,063</u>		<u>\$</u>	<u>\$3,424,020</u>	
Actual Direct Salaries & Fringe Benefits	1,549,070 **				
Approved Rate	164.55% FY 06/07 approved ICAP rate			2,394,076 ****	
Recovered Indirect Costs (approved rate x actual base)	<u>\$2,548,946</u>				
Ending Carryforward (total indirect costs- Recovered Indirect Costs	\$720,117 To FY 08/09 rate calculation (\$3,269,530-\$2,548,946)				
				143.02% FY 08/09 Calculated ICAP rate	(Total Indirect costs / Actual Direct Salaries & Fringe Benefits)

As required by 2 CFR, Part 225.55 all costs and rates identified on this page are referenced to the schedule(s) and document(s) that support the state amount and rate.

* See page #72 of FY 06/07 CAFR(amount reduced from \$2,296,073 to \$2,253,530 per Caltrans Audit Investigator, Elena Guerrero" .

**See page #72 of FY 06/07 CAFR (Direct Salaries \$1,076,117 + Direct Fringe \$472,953= \$1,549,070.00)

***See Indirect cost budget worksheet for total Indirect Costs

****See Indirect cost budget worksheet (Direct Salaries \$1,823,489 + Direct Benefits \$570,587)

SCHEDULE B

See Attachment II

SCHEDULE C
FY 06/07 ACTUAL COSTS DETAILED FOR FY 08/09 CARRYFORWARD CALCULATION

	Direct	Ref.	Indirect	Unallow- Able	Expense	Ref.	Indirect	GL	Proj. Cost Report	Proj. Cost Variance	Budget	Budget Vs. G/L	Explanation for Status vs. Actual Variance * See Salary Calculation Below
Salaries	1,076,117	Atch III	815,009	Atch IV	\$	Atch IV	\$	1,872,736	(18,390)	\$	1,975,124	83,998	
Fringe Benefits	472,953	Atch III	323,814	Atch IV	\$	Atch IV	\$	796,767	0	0	840,000	43,233	
	1,549,070		1,138,823					2,669,503	(18,390)				** Audit adjustment for accrual of long-term compensated absences non-chargeable cost added to ind salaries.
Compensated absences - long-term													
Office expense	125,761	Atch III	160,517	Atch IV		Atch IV		286,278	160,517		329,950	43,672	
Communications	8,480	Atch III	43,104	Atch IV		Atch IV		51,584	43,104		60,000	8,416	
Memberships	5,125	Atch III	27,420	Atch IV		Atch IV		38,906	27,420		37,000	(1,906)	
Rent - equipment	0		101,704	Atch IV		Atch IV		101,704	42,542		130,000	28,296	
Capital lease principal payments	42,542		11,533	Atch IV		Atch IV		42,542	11,533		43,000	458	
Capital lease interest payments	0		156,572	Atch IV		Atch IV		11,533	222,297		12,000	467	
Interest - building debt service	0		6,824	Atch IV		Atch IV		222,297	6,824		233,500	11,203	
Transportation, travel and training	106,209	Atch III						118,064			109,000	(18,064)	See Note #4 Below
Professional and special services	1,788,018	Atch III	150,382	Atch IV		Atch IV		2,021,893	150,382		3,134,355	1,112,462	See Note #3 Below: \$24,550 was reimbursed to COG from other entities/individuals
Departmental costs allocated	0		9,470	Atch IV		Atch IV		9,470	9,470		5,200	(4,270)	See Note #2 Below: Unallowable lobbying
Publications and legal notices	15,951	Atch III	7,049	Atch IV		Atch IV		23,000	7,049		27,000	4,000	
Insurance	(0)		74,381	Atch IV		Atch IV		74,381	74,381		85,000	10,619	
Rents - other	1,752	Atch III	1,464	Atch IV		Atch IV		3,216	1,464		8,000	4,784	
Capital outlay	0		0					105,390	18,076	1/	80,500	(24,890)	
Maintenance - equipment	0		5,161	Atch IV		Atch IV		5,161	5,161		13,000	7,839	See Note #1 Below
Maint. - building & grounds	0		47,509	Atch IV		Atch IV		47,509	47,509		60,000	12,491	
Utilities	0		70,053	Atch IV		Atch IV		70,053	70,053		60,000	(10,053)	
Unallocated reserve	0		0					0	0		0	0	No transfers to reserve
Depreciation	0		241,565	Atch IV		Atch IV		294,065	0		0	(294,065)	
TOTAL EXPENDITURES	2,093,838		1,114,708					3,527,046	999,486		7,233,629	1,018,690	
RECOVERED UNDER INDIRECT COST RATE	0		0					0	0	1/	0	0	
Compensated absence accrual	0		0					0	0		0	0	
Reserve transfer	0		0					0	0		0	0	
Depreciation	0		(241,565)					(294,065)			0	294,065	
TOTAL EXPENDITURES	\$ 3,642,908		\$ 2,011,945					\$ 5,920,874	(318,500)		\$ 7,233,629	\$ 1,312,755	Net Variance agrees to G/L

1/ All capital outlay under \$5,000 has been transferred to Office Expense in accordance with A-87. For 2006-07 this amount transferred was \$14,744.98.
Capital outlay of \$105,390 = \$18,076 of fixed asset additions plus \$87,314 of capital lease additions.

2/ Unallowable lobbying expenditures paid with local funds.

3/ Unallowable travel expenditures paid with local funds.

4/ Unallowable interest attributable to 3rd floor of headquarters building.

* Indirect Salaries = \$465,981 Admin Sal's + \$54,162 Vnc sal's + 276,476 Indirect Benefit Sal's + 18,390 accrued LTC = \$815,009
\$1,891,126 Total ActualSal's less \$815,009 Indir. Sal's = \$1,076,117 Direct Salaries

Direct Fringe Benefits = Total Fringe calculated = .4395 X 1,076,117 =

Indirect fringe = Total fringe benefits less direct fringe benefits

Total expenditures recovered under indirect cost rate = total direct salaries & benefits

X Overhead Rate = 1,549,070 X 1.6455 =

2,548,995

472,953

323,814

→ Indirect costs amount
to be noted on
schedule (A)

0.0x

0.0x